



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROYA. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
GLADWIN, MICHIGAN

FINANCIAL STATEMENTS
JUNE 30, 2006

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM McGladrey Network
An Independently Owned Member

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Gladwin City Housing Comm Public Housing	County Gladwin
Fiscal Year End 6/30/06	Opinion Date 10/4/06	Date Audit Report Submitted to State 2/26/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.


We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None prepared	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Weinlander Fitzhugh		Telephone Number 989-922-6447	
Street Address P O Box 775		City Bay City	State MI
		Zip 48707	
Authorizing CPA Signature 		Printed Name Stewart J Reid	License Number 1609332

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3a - 3d
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements	
Proprietary Fund:	
Statement of Net Assets	6
Statement of Revenues, Expenses and Changes in Fund Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9 -17
Report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with Government Auditing Standards	18-19



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENA E. M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIERER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYOCK, CPA

October 4, 2006

Independent Auditors' Report

Board of Commissioners
Gladwin City Housing Commission
Gladwin, Michigan

We have audited the accompanying financial statements of the business-type activities and its major fund of the Gladwin City Housing Commission Public Housing Project No. MI095 and ACC No. C-3078, as of and for the year ended June 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and its major fund of the Gladwin City Housing Commission Public Housing as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM! McGladrey Network
An Independently Owned Member



WEINLANDER FITZHUGH

Board of Commissioners
Gladwin City Housing Commission
October 4, 2006
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated October 4, 2006, on our consideration of Gladwin City Housing Commission Public Housing's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis as identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING

Management's Discussion & Analysis
For the Year Ended June 30, 2006

Our discussion and analysis of the Gladwin City Housing Commission – Public Housing's financial performance provides an overview of Public Housing's activities of the year ended June 30, 2006.

Public Housing is a Proprietary Fund of the Gladwin City Housing Commission (Housing Commission) that accounts for the activities of a 50 unit low rent housing project and a 20 unit low rent scattered site project. These programs receive subsidies and annual contributions from the Department of Housing and Urban Development (HUD). The accompanying financial statements present the results of operations for Public Housing only, and do not include any other activities or programs of the Housing Commission.

Financial Highlights

Public Housing reported a change in net assets of (\$67,000) for the year, resulting in ending net assets of \$890,000.

Using this Annual Financial Report

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Housing Commission. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Reporting Public Housing as a Whole

The *government-wide financial statements* are designed to provide readers with a broad overview of Public Housing's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of Public Housing's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Public Housing is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how Public Housing's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
Management's Discussion & Analysis
For the Year Ended June 30, 2006

Reporting on Public Housing

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Housing Commission, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Funds - Proprietary funds are reported in the fund financial statements and generally report services for which the Government charges customer a fee. Proprietary funds essentially encompass the same functions reported as business-type activities in the government-wide statements. The Housing Commission uses a proprietary fund to account for Public Housing.

Notes To The Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

Financial Analysis of Public Housing

The most common financial question posed to the Housing Commission is "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities report information about the Housing Commission's activities in a way that will help answer this question. The two statements report the net assets of Public Housing and the change in them.

Exhibit A below summarizes the statement of net assets.

Exhibit A

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 245,000	\$ 256,000
Capital assets - net of accumulated depreciation	<u>713,000</u>	<u>780,000</u>
Total assets	<u>958,000</u>	<u>1,036,000</u>
Liabilities		
Current liabilities	<u>68,000</u>	<u>79,000</u>
Net Assets		
Investment in capital assets	713,000	780,000
Unrestricted	<u>177,000</u>	<u>177,000</u>
Total net assets	<u><u>\$ 890,000</u></u>	<u><u>\$ 957,000</u></u>

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING

Management's Discussion & Analysis
For the Year Ended June 30, 2006

Exhibit A focuses on the net assets of Public Housing, which were \$890,000 at June 30, 2006. Investment in capital assets, totaling \$713,000, compares the original cost, less depreciation of the Housing Commission's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$177,000 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for Public Housing are reported in the statement of activities, as summarized in Exhibit B, which shows the changes in net assets for the year ended June 30, 2006.

Exhibit B

	<u>2006</u>	<u>2005</u>
Revenue		
Program revenue:		
Charges for service	\$ 177,000	\$ 170,000
Operating grants	149,000	164,000
General revenue:		
Other	5,000	5,000
Interest income	<u>6,000</u>	<u>3,000</u>
 Total revenue	 337,000	 342,000
 Function/Program Expenses		
Public Housing	<u>404,000</u>	<u>396,000</u>
 Increase (Decrease) in Net Assets	 <u><u>\$ (67,000)</u></u>	 <u><u>\$ (54,000)</u></u>

Budgetary Highlights

The preparation of budgets is not required for proprietary funds.

Capital Assets

The Public Housing had \$713,000 net of accumulated depreciation, invested in capital assets as of June 30, 2006. The investment in capital assets includes land, building, equipment and dwelling equipment.

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
Management's Discussion and Analysis
For the Year Ended June 30, 2006

	<u>2006</u>	<u>2005</u>
Land	\$ 192,000	\$ 192,000
Buildings and improvements	2,107,000	2,107,000
Equipment	54,000	54,000
Dwelling equipment - nonexpendable	<u>181,000</u>	<u>181,000</u>
Total capital assets	2,534,000	2,534,000
Less accumulated depreciation	<u>1,821,000</u>	<u>1,754,000</u>
Net capital assets	<u><u>\$ 713,000</u></u>	<u><u>\$ 780,000</u></u>

Factors Expected to have an Effect on Future Operations

We are not aware of any factors that will have a significant impact on future operations.

Requests For Information

This financial report is designed to provide a general overview of the Housing Commission's finances for all those with an interest in the Housing Commission. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ms. Sheila Hall
Executive Director
Gladwin City Housing Commission
215 S. Antler Street
Gladwin, MI 48624

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
Statement of Net Assets
June 30, 2006

	<u>Business-type Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 211,801
Restricted tenant deposits	15,009
Tenant accounts receivable	(206)
Accounts receivable - HUD	14,041
Accounts receivable - other	1,510
Inventory	2,205
Prepaid expenses	1,074
Capital assets less accumulated depreciation of \$1,820,995	<u>712,476</u>
Total assets	<u>957,910</u>
<u>Liabilities</u>	
Accounts payable	37,634
Accrued payroll	6,369
Other liabilities	9,224
Tenant security deposits	<u>15,009</u>
Total liabilities	<u>68,236</u>
<u>Net Assets</u>	
Investment in capital assets	712,476
Unrestricted	<u>177,198</u>
Total net assets	<u><u>\$ 889,674</u></u>

See accompanying notes to financial statements

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
Statement of Activities
For the Year Ended June 30, 2006

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			Business- Type Activities
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	Net (Expense) Revenue and Changes in Net Assets
Business-type activities:					
Public Housing	<u>\$ 404,168</u>	<u>\$ 177,186</u>	<u>\$ 148,411</u>	<u>\$ 0</u>	\$ (78,571)
General revenues:					
Interest income					6,323
Other					<u>5,157</u>
			Change in net assets:		(67,091)
			Net assets - beginning of year		<u>956,765</u>
			Net assets - end of year		<u>\$ 889,674</u>

See accompanying notes to financial statements

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
Statement of Net Assets
Proprietary Fund
June 30, 2006

	<u>Business-Type Activities Enterprise Fund</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 211,801
Tenant accounts receivable	(206)
Accounts receivable - HUD	14,041
Accounts receivable - other	1,510
Inventory	2,205
Prepaid expenses	<u>1,074</u>
Total current assets	230,425
<u>Restricted Deposits</u>	
Tenant deposits	15,009
<u>Property and Equipment</u>	
Property and equipment less accumulated depreciation of \$1,820,995	<u>712,476</u>
Total assets	<u>\$ 957,910</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	\$ 37,634
Accrued liabilities:	
Payroll	6,369
Payment in lieu of taxes	9,224
Tenant security deposits	<u>15,009</u>
Total liabilities	<u>68,236</u>
<u>NET ASSETS</u>	
Investment in capital assets	712,476
Unrestricted	<u>177,198</u>
Total net assets	<u>\$ 889,674</u>

See accompanying notes to financial statements

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	Business-Type Activities Enterprise Fund
<u>Operating Revenues</u>	
Net tenant rental revenue	\$ 167,429
Excess utilities	1,807
Tenant revenue - other	7,950
Total operating revenues	<u>177,186</u>
<u>Operating Expenses</u>	
Administration	75,382
Ordinary maintenance and operation	78,571
Utilities	84,949
Depreciation	67,091
General expenses	87,424
Tenant services	10,751
Total operating expenses	<u>404,168</u>
Operating income (loss)	(226,982)
<u>Non-operating Revenues (Expenses)</u>	
HUD operating subsidy	105,869
HUD capital fund program revenue	42,542
Other non-operating revenue	5,157
Interest income	6,323
Total non-operating revenues (expenses)	<u>159,891</u>
Change in net assets	(67,091)
Net assets - beginning of year	<u>956,765</u>
Net assets - end of year	<u>\$ 889,674</u>

See accompanying notes to financial statements

GLADWIN CITY HOUSING COMMISSION
PUBLIC HOUSING
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006

	Business-Type Activities Enterprise Fund
<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 175,848
Cash payments to suppliers for goods and services	(240,943)
Cash payments to employees for services	(106,720)
	<u>(171,815)</u>
<u>Cash Flows From Capital And Related Financing Activities</u>	
HUD capital fund program revenue	28,501
	<u>28,501</u>
<u>Cash Flows From Non-capital Financing Activities</u>	
HUD operating subsidy	105,869
Other non-operating revenue (expenses)	5,157
	<u>111,026</u>
<u>Cash Flows From Investing Activities</u>	
Interest income	6,323
	<u>(25,965)</u>
<u>Cash And Cash Equivalents At Beginning Of Year</u>	252,775
<u>Cash And Cash Equivalents At End Of Year</u>	<u>\$ 226,810</u>

See accompanying notes to financial statements

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladwin City Housing Commission (the "Housing Commission") conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Housing Commission.

Reporting Entity

The Gladwin City Housing Commission is organized under Michigan Public Act 18 and provides a variety of services and programs to its residents; including the management of low rent housing projects, the delivery of senior citizen assistance programs, and management of the public transportation system.

Public Housing is a Proprietary Fund of the Gladwin City Housing Commission that accounts for the activities of a 50 unit low rent housing project known as Maple Manor (MI 95-1) and a 20 unit low rent scattered site project known as North Cedar Crest Apartments (MI 95-2). These programs receive subsidies and annual contributions from the Department of Housing and Urban Development ("HUD"). The accompanying financial statements present the results of operations for Public Housing only, and do not include any other activities or programs of the Housing Commission.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of Public Housing's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include, (1) charges to customers, or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting operations or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenue.

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate fund financial statements are provided for the major enterprise fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Housing Commission reports Public Housing as a major proprietary fund.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989, for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to rental fees to the tenants. Public Housing also recognizes charges for utilities and rental of office space as operating revenue. Operating expenses for proprietary funds include the cost of maintenance, utilities, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables – Accounts receivable consist of tenant and utility charges to Public Housing tenants. Accounts receivable are stated at actual since Public Housing utilizes the direct write-off method for bad debts. The direct write-off method recognizes a bad debt expense only when a specific account is determined to be uncollectible. The application of this method is not deemed materially different than the allowance method which is prescribed for purposes of U.S. generally accepted accounting principles.

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives.

Building	30 years
Equipment	5-7 years
Improvements	15 years

Use of Estimates

The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – DEPOSITS AND INVESTMENTS

State statutes and the Housing Commission's investment policy authorize the Housing Commission to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Housing Commission is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. Public Housing's deposits are in accordance with statutory authority.

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

At year-end, Public Housing's deposits and investments were reported in the basic financial statements as follows.

	<u>Business-Type Activities</u>
Sweep account	\$ 226,630
Petty cash and cash on hand	<u>180</u>
Total	<u><u>226,810</u></u>

Interest Rate Risk

In accordance with its investment policy, the Housing Commission will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, Public Housing had no investments.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, Public Housing's deposits may not be returned to it. As of June 30, 2006, the Public Housing's bank balance of \$236,108 was not exposed to custodial credit risk since all excess cash is invested in U.S. Treasury obligations.

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 3 – CAPITAL ASSETS

Capital asset activity of Public Housing for the current year was as follows.

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 191,951	\$ 0	\$ 0	\$ 191,951
Capital assets being depreciated:				
Building	1,647,077	0	0	1,647,077
Building improvements	257,002	0	0	257,002
Nondwelling structures	69,776	0	0	69,776
Site improvements	132,836	0	0	132,836
Dwelling equipment - nonexpendable	181,373	0	0	181,373
Office furniture and equipment	53,456	0	0	53,456
Subtotal	2,341,520	0	0	2,341,520
Less accumulated depreciation	1,753,904	67,091	0	1,820,995
Net capital assets being depreciated	587,616	(67,091)	0	520,525
Net capital assets	\$ 779,567	\$ (67,091)	\$ 0	\$ 712,476

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

**NOTE 4 – RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY
OPERATING ACTIVITIES**

Operating income (loss)	\$ (226,982)
Adjustments to reconcile operating income to net cash (used) by operating activities:	
Depreciation	67,091
Change in assets and liabilities	
Tenant accounts receivable	182
Accounts receivable	(1,051)
Inventory	6
Prepaid expenses	(737)
Accounts payable	(2,555)
Accrued liabilities	(7,299)
Tenant security deposits	<u>(470)</u>
Net cash (used) by operating activities	<u><u>\$ (171,815)</u></u>

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 5 - PENSION PLAN

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Gladwin City Housing Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible employees of the Gladwin City Housing Commission, through its association with the City of Gladwin. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at:

Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, Michigan 48917
Or by calling 1-800-767-6377

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by the Gladwin City Housing Commission on November 8, 2003, by resolution of the Board. The plan requires a 3% contribution by the employees to the System. The Housing Commission is required to contribute based on an actuarially determined rate.

Annual Pension Costs – For year ended June 30, 2006, the Housing Commission's annual pension cost of \$112,718 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal actuarial cost method. Significant actuarial assumptions used include, (1) an 8.0% investment rate of return, (2) projected salary increase of 4.5% per year, and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four year period.

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 6 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The following three year trend information as of December 31, 2005 is for the entire Gladwin City Housing Commission.

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 55,848	\$ 51,468	\$ 112,718
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	618,017	722,529	878,150
Actuarial accrued liability	1,124,936	1,190,977	2,010,435
Unfunded AAL	506,919	468,448	1,132,285
Funded ratio	55%	61%	44%
Covered payroll	759,907	728,880	705,810
UAAL as a percentage of covered payroll	67%	64%	160%

NOTE 7 – RISK MANAGEMENT

The Housing Commission is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employers; and natural disasters. The Housing Commission manages risk through the purchase of commercial insurance.

The Housing Commission is a member of the Housing Authority Risk Retention Group (HARRG), Housing Authority Property Insurance Group (HAPI), and the Housing Insurance Services (HIS); which are subsidiaries of the parent company Housing Authority Insurance (HAI). HARRG, HAPI, and HIS are public entity risk pools. Public entity risk pools are cooperative groups of governmental entities joining together to finance an exposure, liability, or risk. Liability insurance is provided to the Housing Commission by HARRG and property insurance is provided by HAPI and auto insurance is provided by HIS. More specifically, HARRG is classified as a risk sharing pool, which is an arrangement by which government's pool risks and funds and share in the cost of losses. HAPI is an insurance purchasing pool, which is an arrangement by which governments pool funds or resources to purchase commercial insurance products. HAPI buys property and casualty insurance from the Travelers Indemnity Company who reinsures the coverage with the American Reinsurance Company.

GLADWIN HOUSING COMMISSION
PUBLIC HOUSING
Notes to Financial Statements
For the Year Ended June 30, 2006

NOTE 7 – RISK MANAGEMENT (CONTINUED)

To be a part of HAPI, HARRG and HIS, the Housing Commission was required to make an initial surplus contribution. Premiums are then paid to the pools throughout the year to remain a member. Additional surplus contributions may be required by the pools in order to maintain adequate surplus to premium ratios for each member. HAPI, HARRG and HIS keep record of surplus accounts for each member.

These accounts include initial and additional surplus contributions plus any dividends declared or paid to the member and any other adjustments for earnings and losses based upon a member's underwriting experience. Upon withdrawal, the Housing Commission would be entitled to receive total surplus contributions paid in over a five year period or to leave its surplus account with the pools and share in all allocations as if it were still a member.

NOTE 8 – CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, and state and local regulatory agencies, including, but no limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENA E. M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIERER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 4, 2006

Board of Directors
Gladwin City Housing Commission
Public Housing
HUD Project No. MI095 and ACC No. C-3078
Gladwin, Michigan

We have audited the financial statements of Gladwin City Housing Commission Public Housing Project No. MI095 and ACC No. C-3078, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 4, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gladwin City Housing Commission Public Housing's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE
GLADWIN AND WEST BRANCH

RSM McGladrey Network
An Independently Owned Member



WEINLANDER FITZHUGH

Board of Directors
Gladwin City Housing Commission
Public Housing
HUD Project No. MI095 and ACC No. C-3078
October 4, 2006
Page 2

Compliance

As part of obtaining reasonable assurance about whether Gladwin City Housing Commission Public Housing's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the board of directors, management, and others within the organization, and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh